

SENATE BILL REPORT

SHB 1407

As Reported By Senate Committee On:
Labor, Commerce, Research & Development, March 26, 2007
Ways & Means, March 30, 2007

Title: An act relating to funding the administration of Title 50 RCW, unemployment compensation.

Brief Description: Funding the administration of Title 50 RCW, unemployment compensation.

Sponsors: House Committee on Commerce & Labor (originally sponsored by Representatives Conway, Wood and Green; by request of Employment Security Department).

Brief History: Passed House: 3/12/07, 97-1.

Committee Activity: Labor, Commerce, Research & Development: 3/26/07 [DPA-WM].
Ways & Means: 3/30/07 [DPA(LCRD)].

SENATE COMMITTEE ON LABOR, COMMERCE, RESEARCH & DEVELOPMENT

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.

Signed by Senators Kohl-Welles, Chair; Keiser, Vice Chair; Clements, Ranking Minority Member; Franklin, Holmquist, Murray and Prentice.

Staff: Sherry McNamara (786-7402)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended by Committee on Labor, Commerce, Research & Development.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Paula Moore (786-7449)

Background: The Employment Security Department (ESD) programs are largely supported by federal funding. However, federal funds are not available for some of the specialized job-placement programs offered in Washington, and the rate of federal funding for even the basic services is declining.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

In the last five years, ESD's federal revenues have declined 29 percent. ESD has implemented a number of cost-cutting and efficiency steps by closing a telecenter, and eliminating staff.

Funds for ESD's Penalties and Interest Account (P&I) are derived from penalties imposed on employers and claimants for violations of Unemployment Insurance (UI) laws and the interest collected on those penalties.

The claimant portion of the P&I fund is financed through a 1 percent interest penalty on UI benefit overpayments to claimants. Funds derived from claimant penalties are limited by statute to fraud detection, benefit overpayment collection, and social security cross-match. The 2005-07 biennial budget provides that for the current biennium, P&I funds may also be used to fund the Job Skills program administered by the State Board for Community and Technical Colleges (SBCTC).

The employer portion of the fund is financed through penalties and interest imposed on employers for late UI taxes and reports. This portion of the fund is used to pay costs that cannot be funded out of more restricted federal fund sources, such as required federal matching funds for AmeriCorps, or state labor market information. In the past, the Legislature appropriated some of the P&I funds to the Department of Community, Trade and Economic Development (CTED) and to the SBCTC for work-related training.

Employers currently pay a fee of 0.01 percent of the taxable wage base for administering ESD's training-benefits program. Of this fee, 40 percent is used for services to the unemployed; the remaining 60 percent is returned to the unemployment-insurance trust fund to be held for benefit claims.

Summary of Substitute Bill: Changes are made to the distribution of ESD funding to allow more flexibility in spending. In the training-benefits fund, instead of 60 percent of the 0.01 percent being returned to the unemployment-insurance trust fund, the state will now retain this portion to maintain employment services.

The requirement that all penalties and interest monies collected from overpayment from claimants is spent entirely on prevention, detection, and collection activity is removed. As a result, ESD is able to use the P&I funds to support state-approved expenditures for which federal funding is not available.

ESD is required to continue engaging in activities to prevent overpayments and evasion of successorship provisions.

Additional technical changes are made to simplify language, correct internal references, and remove obsolete provisions, as well as redundant language describing permissible uses of various existing monies.

EFFECT OF CHANGES MADE BY RECOMMENDED AMENDMENT(S) AS PASSED COMMITTEE (Labor, Commerce, Research & Development): Adds an emergency clause with an effective date of July 1, 2007, to coincide with the budget.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony (Labor, Commerce, Research & Development):

PRO: This bill is at the request of ESD to provide flexibility and to allow the moneys to be used to maintain quality services and not put ESD at financial risk. If ESD is required to absorb the increased cost of wages, 93 employees will need to be laid off. This bill will help to maintain existing services.

Persons Testifying (Labor, Commerce, Research & Development): PRO: Jill Will, ESD; Dennis Eagle, Washington Federation of State Employees.

Staff Summary of Public Testimony (Ways & Means): None.

Persons Testifying (Ways & Means): No one.